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MORALE SLUMPS among U.S. diplomats dismayed by Reagan policies.

State Department officials feel undercut by White House aides, who pushed through the disputed decision on extending pipeline sanctions to European firms. One official says the department feels "decapitated" and "the crazies are in control." Diplomats complain Reagan listens too much to foreign-policy amateurs—Clark, Casey and international communication chief Wick.

The professionals feel especially frustrated because they see no way out of the current rift with European allies. Even officials opposed to the decision on pipeline sanctions think Reagan can't afford to reverse himself. The National Security Council seeks ways to mend relations with Europe, but the consensus says the U.S. can only let things cool down.

State Department officials hope Shultz will take firm control of foreign policy. But they won't be able to judge his influence for several months.